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## AFTER-WAR READJUSTMENT: LIBERATING GOLD-DISCUSSION

ELISHA M. FRIEDMAN.—There are three statements in Dr. Miller's presentation which merit discussion:

1. The paper of Germany was at a discount with respect to gold while that of France and Great Britain was not.

2. The Federal Reserve System has been patterned too much after German banking models.

3. We ought to release our mobilized gold.

1. There have appeared statements to the effect that French and Italian paper were at a discount with respect to gold. But the vital distinction between the weakness of German finance as compared to that of the Allied Powers is that the latter had a great financial reserve to draw on,—the loans raised in the United States while it was neutral, and the government credits extended after it entered the conflict.

Our entry into the war solved the financial difficulties of the Allies. The United States Government advanced credits to cover purchases made here. The financial strength of our associates in the war was derived from their affiliation with the United States, just as Germany's weakness consisted in her isolation. The increase in her paper money and the decline in the ratio of gold to notes was not very different from that of either France or Italy.

The difference contains a post-war moral, the value of coöperation in the attempt to reëstablish international credit.

2. The statement that the Federal Reserve System has developed along German lines is subject to qualification.

The outstanding feature of the German banks is the alliance between industry and the banks. The Norddeutscher Lloyd and the Deutsche Bank, the Allgemeine Electricitaets Gesellschaft, and the Berlin Handelsgesellschaft are illustrations in point. The banks in each case function as underwriters and issue the securities of the related industry. By contrast, our Federal Reserve members are more strictly banks of deposit, like the British and French banks. However, the English think so well of the union of industry and finance that they founded the British Trade Corporation to secure the benefits thereof. As for the French, Deputy Victor Boret, in his *Credit de Demain*, laments the rigidity of the French banking system and lauds the elasticity of the German. Eugene Le Tailleur, author of *Pour Renaitre* and of *Vers la Democratie Nouvelle*, says, "The nameless

barbarism of German militarism should not let us forget that Germany represents a stage superior to our own in economic organization, and that she has so far surpassed us on the road of industrialization that we shall be obliged, whether we will or no, to become inspired by her methods."

No less an authority than Sir Edward H. Holden of the London City and Midland Bank, in his annual report for 1918, praised the organization and functioning of the Federal Reserve System.

Again, as far as the gold policy is concerned, not alone Germany, but the entire Continent made it a point to conserve its gold supply. Figures of the excess imports over exports of gold for the decade 1903-12 were—

For Germany .....	\$340,538,000
For France .....	676,592,000
For Italy .....	93,037,000

The Federal Reserve System was established almost at the beginning of the Great War. Its development took place under abnormal conditions. As a war-time expedient the Federal Reserve System followed the peace-time policy not of Germany but of the Continent.

3. As for an after-war gold policy, we ought to hold on to our mobilized gold until and unless we know what the policy of the other powers is to be.<sup>1</sup>

There are two reasons for this course. We entered the war for no selfish gain. As Mr. Wilson put it, "We ask nothing for ourselves that we would not ask for all the nations." Selfish schemes may be thrust forward by some of the nations at the peace table. Controlling one third of the world's gold supply, the plea of America for a sane internationalism may not fall on deaf ears. It might be advisable to take no action on our gold policy until the Peace Conference has closed its negotiations. A second reason is that if international credit is to be reorganized, it will probably be as a result of some joint action by the Powers. We should therefore consider ourselves trustees until a common financial policy and an international financial organization is developed.

<sup>1</sup> The Cunliffe Report recommends that England build up a "normal minimum central reserve" of three-quarters of a billion dollars.